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A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

For the Two Fiscal Years Ended June 30, 2007

SEPTEMBER 2007

LEGISLATIVE AUDIT
DIVISION

07-24

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

September 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council (council) for the two fiscal years ended June 30, 2007. The objectives of our audit included determining whether the council's financial schedules present fairly its results of operations and changes in fund balance for each of the fiscal years ended June 30, 2007, and June 30, 2006, assessing the council's compliance with applicable state laws and regulations, and obtaining an understanding of the council's control system, and if appropriate, making recommendations for improvement.

The Montana Arts Council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is authorized to accept gifts and donations to carry out the functions of the council, and is designated as the official agency of the state to receive and disburse funds made available by the National Endowment for the Arts. The council is responsible for the governance, management, and control of staff hired to perform its mission. The council's duties are to:

1. Encourage the study and presentation of the arts statewide.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife are designed to expose Montanans to their artistic and cultural heritage. Grants, fellowships, technical assistance, and networking efforts help support both individual artists, and art and cultural organizations.

The council receives federal grants from the National Endowment for the Arts, investment earnings from the Cultural Trust Fund, Percent for Arts allocations from appropriations for construction of state buildings, private grants, and General Fund appropriations to fund its operations.

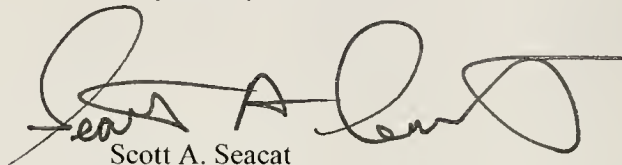
Cultural and Aesthetic (C&A) grants are available to cultural organizations, and units of state, local, and tribal governments. The council provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a prioritized grant list to the legislature for

funding. The legislature determines which organizations will receive grants, and the council awards the money as specified by the legislature. The 59th Legislature approved funding of approximately \$792,925 for cultural and aesthetic projects in the biennium ending June 30, 2007.

This report does not contain any recommendations to the council. The prior financial-compliance audit report, issued for the two fiscal years ended June 30, 2005, contained three recommendations. The council implemented the recommendations.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The council's response to this report is included on page B-1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Scott A. Seacat', with a large, stylized flourish extending to the right.

Scott A. Seacat

Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Arts Council

		<u>Term Expires</u>
Jackie Parsons (Chair)	Browning	2008
Tim Holmes	Helena	2010
Rob Quist	Kalispell	2010
Kevin Red Star	Roberts	2010
Mary O. Crippen	Billings	2007
Dee Heltne	Havre	2007
John Dudis	Kalispell	2007
Betti Hill	Helena	2008
Kathleen Schlepp	Miles City	2008
Ann Cogswell	Great Falls	2008
Rick Halmes	Billings	2008
Neal Lewing	Polson	2007
Youpa Stein	Missoula	2010
Wilbur Wood	Roundup	2010
Cynthia Andrus	Bozeman	2007

Administrative Officials

Arlynn Fishbaugh, Executive Director

Carleen Layne, Accountant

For additional information concerning the Montana Arts Council, contact:

Carleen Layne

Accountant

Montana Arts Council

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Helena MT 59620-2201

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LEGISLATIVE AUDIT DIVISION

A-1

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the fiscal years ended June 30, 2007, and 2006. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 11, 2007

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2006	\$ (35,562)	\$ 7,050	\$ 0	\$ 8,317,096
ADDITIONS				
Budgeted Revenues & Transfers-In		557,273	618,876	
Nonbudgeted Revenues & Transfers-In	133	15,042		553,502
Direct Entries to Fund Balance	420,687	38,084		248,901
Total Additions	420,820	610,399	618,876	802,403
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	417,002	665,946	618,876	
Nonbudgeted Expenditures & Transfers-Out	(38)	6,891		515,698
Total Reductions	416,964	672,837	618,876	515,698
FUND BALANCE: June 30, 2007	\$ (31,706)	\$ (55,388)	\$ 0	\$ 8,603,801

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2005	\$ (9,594)	\$ 15,349	\$ 0	\$ 5,064,626
ADDITIONS				
Budgeted Revenues & Transfers-In				
NonBudgeted Revenues & Transfers-In	123	592,315	578,120	3,475,318
Direct Entries to Fund Balance	483,898	(1,211)		224,192
Total Additions	484,021	634,023	578,120	3,699,510
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	510,020	601,602	578,338	
Nonbudgeted Expenditures & Transfers-Out	(30)	42,862		447,040
Prior Year Expenditures & Transfers-Out Adjustments	(1)	(2,142)	(218)	
Total Reductions	509,989	642,322	578,120	447,040
FUND BALANCE: June 30, 2006	\$ (35,562)	\$ 7,050	\$ 0	\$ 8,317,096

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Taxes	\$ 133	\$ 99			\$ 232
Charges for Services		3,430			3,430
Investment Earnings		1,425		\$ 553,502	554,927
Sale of Documents, Merchandise and Property		1,574			1,574
Grants, Contracts, Donations and Abandonments		10,088			10,088
Other Financing Sources		555,699			555,699
Federal			\$ 618,876		618,876
Total Revenues & Transfers-In	133	572,315	618,876	553,502	1,744,826
Less: Nonbudgeted Revenues & Transfers-In	133	15,042		553,502	568,677
Actual Budgeted Revenues & Transfers-In	0	557,273	618,876	0	1,176,149
Estimated Revenues & Transfers-In	9,869	619,903	594,900		1,224,672
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (9,869)	\$ (62,630)	\$ 23,976	\$ 0	\$ (48,523)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (35)				\$ (35)
Charges for Services	(9,834)				(9,834)
Grants, Contracts, Donations and Abandonments		\$ (40,000)			(40,000)
Other Financing Sources		(22,630)			(22,630)
Federal			\$ 23,976		23,976
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (9,869)	\$ (62,630)	\$ 23,976	\$ 0	\$ (48,523)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Taxes	\$ 123	\$ 51			\$ 174
Charges for Services		4,500			4,500
Investment Earnings		2,146		\$ 62,818	64,964
Grants, Contracts, Donations and Abandonments		61,222			61,222
Other Financing Sources		567,315		3,412,500	3,979,815
Federal			\$ 578,120		578,120
Total Revenues & Transfers-In	123	635,234	578,120	3,475,318	4,688,795
Less: Nonbudgeted Revenues & Transfers-In	123	42,919		3,475,318	3,518,360
Actual Budgeted Revenues & Transfers-In	0	592,315	578,120	0	1,170,435
Estimated Revenues & Transfers-In	9,813	705,350	602,900		1,318,063
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (9,813)	\$ (113,035)	\$ (24,780)	\$ 0	\$ (147,628)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Taxes	\$ (35)				\$ (35)
Charges for Services	(9,778)				(9,778)
Grants, Contracts, Donations and Abandonments		\$ (45,000)			(45,000)
Other Financing Sources		(68,035)			(68,035)
Federal			\$ (24,780)		(24,780)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (9,813)	\$ (113,035)	\$ (24,780)	\$ 0	\$ (147,628)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Promotion of the Arts</u>
Personal Services	
Salaries	\$ 380,612
Other Compensation	3,250
Employee Benefits	105,717
Total	<u>489,579</u>
Operating Expenses	
Other Services	132,405
Supplies & Materials	28,289
Communications	39,251
Travel	45,440
Rent	25,568
Repair & Maintenance	251
Other Expenses	12,357
Total	<u>283,561</u>
Grants	
From State Sources	577,904
From Federal Sources	357,558
Total	<u>935,462</u>
Transfers	
Accounting Entity Transfers	515,773
Total	<u>515,773</u>
Total Expenditures & Transfers-Out	<u>\$ 2,224,375</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 416,964
State Special Revenue Fund	672,837
Federal Special Revenue Fund	618,876
Permanent Fund	515,698
Total Expenditures & Transfers-Out	2,224,375
Less: Nonbudgeted Expenditures & Transfers-Out	522,551
Actual Budgeted Expenditures & Transfers-Out	1,701,824
Budget Authority	1,776,679
Unspent Budget Authority	<u>\$ 74,855</u>

UNSPENT BUDGET AUTHORITY BY FUND

State Special Revenue Fund	\$ 14,057
Federal Special Revenue Fund	60,798
Unspent Budget Authority	<u>\$ 74,855</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Promotion of the Arts</u>
Personal Services	
Salaries	\$ 355,229
Other Compensation	4,600
Employee Benefits	102,280
Total	<u>462,109</u>
Operating Expenses	
Other Services	152,993
Supplies & Materials	35,645
Communications	33,653
Travel	50,894
Rent	23,902
Repair & Maintenance	121
Other Expenses	15,154
Total	<u>312,362</u>
Grants	
From State Sources	479,153
From Federal Sources	348,757
From Other Sources	27,775
Total	<u>855,685</u>
Transfers	
Accounting Entity Transfers	<u>547,315</u>
Total	<u>547,315</u>
Total Expenditures & Transfers-Out	<u>\$ 2,177,471</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 509,989
State Special Revenue Fund	642,322
Federal Special Revenue Fund	578,120
Permanent Fund	447,040
Total Expenditures & Transfers-Out	<u>2,177,471</u>
Less: Nonbudgeted Expenditures & Transfers-Out	489,872
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,361)</u>
Actual Budgeted Expenditures & Transfers-Out	1,689,960
Budget Authority	2,193,492
Unspent Budget Authority	<u>\$ 503,532</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 5,349
State Special Revenue Fund	446,719
Federal Special Revenue Fund	51,464
Unspent Budget Authority	<u>\$ 503,532</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Arts Council

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent Funds). In applying the modified accrual basis, the council records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the council to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the council receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The council uses the following funds:

Governmental Fund Category

- ♦ **General Fund** - to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Council State Special Revenue Funds include the Cultural and Aesthetic Projects and Percent for Art.
- ♦ **Federal Special Revenue Fund** - to account for federal funds received by the council from the National Endowment for the Arts.

- ♦ **Permanent Fund** - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the council's programs. The council uses this fund for the Cultural and Aesthetic Trust Fund and Sigerson Fellowship Exhibit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The council has authority to pay obligations from the statewide General Fund within its appropriation limits. The council expends cash or other assets from the statewide fund when it pays General Fund obligations. The council's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2007, and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, and Permanent Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

MONTANA ARTS COUNCIL

*Boosting local economies, revitalizing communities
and improving education through the arts*

B-1



BRIAN SCHWEITZER
GOVERNOR

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CITY-COUNTY BUILDING, ROOM 252

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September 25, 2007

TO: Scott Seacat
Legislative Auditor

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SEP 26 2007

LEGISLATIVE AUDIT DIV.

A handwritten signature in cursive script, reading "Arlynn Fishbaugh".

FROM: Arlynn Fishbaugh
Executive Director

RE: Agency response for 2006-2007 audit

The Montana Arts Council is thrilled with the results of the financial compliance audit for our agency for fiscal years 2006 and 2007.

Our accountant, Carleen Layne, and her assistant, Kristin Han-Burgoyne, deserve special praise for their attention to detail, thoroughness and the excellent manner in which they perform their respective duties that helped produce this unqualified audit with no recommendations.

Your staff was, as usual, courteous, efficient and always professional. We especially appreciate their willingness to understand the operations and intricacies of our very small agency. We always appreciate the opportunity to be more efficient and effective in our overall operations. We do use these audits as learning experiences and always continue to improve our practices at the agency.

Once again, we are so pleased by the results.

